Impact of Service Recovery on Word-of-mouth and Behavioural Intents

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Abstract: - Service recovery process is considered to provide the service provider with a second chance to reinforce relationships with the customers. It is considered the second encounter by several authors. Prudently, a successful service recovery should have a positive impact on the satisfaction of customers. However one may argue that a successful service recovery process may not always lead to satisfaction on the part of the customers. The customer may not want to continue purchases from the store after such service failure. This study was conducted on the recovery efforts undertaken by retail stores reveals that successful service recovery has a very low effect on overall satisfaction of the firm, which in turn has high influence on word-of-mouth intents and purchase intention of the customer.

Key-Words: Service encounter, Service recovery, Satisfaction, Word-of-mouth, Purchase intents, SEM.

1 Introduction
Services can be distinguished from goods on grounds of intangibility, inseparability, heterogeneity and perishability, the 4Ps of McCarthy being the same. Marketing services involve an attempt to sell offerings, ideas and processes to consumers (Boshoff, 2007) and service encounter is the focal point of the discipline of services marketing. The design of this contact between the provider and consumer (Gummesson 1997) is very important in a service setting. Service encounter is a ‘real’ space existing in daily social environment” (John 1996) and is not scripted like some rigid format. When the service provider fails the first time, service recovery provides firms with a second chance to create and improve relations with customers. A successful service recovery has a positive impact on the overall satisfaction towards the firm and consequently the behavioural intents of the customer. The study focussed on Indian retail store customers who faced service failure and subsequent service encounters.

2 Theoretical Background and Hypotheses Development

2.1 Service Encounter
Service encounter is the time when customers directly interact with a service (Loveland, 2001; Surprenant, 1987; Shostack (1985). It is “the moment when frontline employees interact with customers to deliver a service” (Lai, Lui and Hon 2014) and a process that identifies problems, gathers and seeks solutions (Chalkiti, 2012; Gilson and Shalley, 2004; Hon, 2012). The encounter need not be in an actual service setting but may also take place via telephone, over the internet or through mail (Bitner et al. 1990). It is a triangle formed interactively by customer,
service organization and service personnel (Bateson, 1985), where the customer gets a glimpse of the service quality (Carlzon, 1987). Authors like Haring and Mattson (1999) believed that service encounters are significant in creating and maintaining good relationships between firms and their customers. Studies reveal that the process of service delivery is important than the outcome itself (Brown et al., 1989) and humour during the process raises the chances of a positive service evaluation in a face-to-face encounter (Dolen et al., 2004). Service encounter for customers is nothing but a second and new experience with the company (Selden and MacMillan, 2006). To precisely capture a consumer’s experience of the encounter service encounters at different steps (Dalakas, 2005) and different events need to be evaluated (Dalakas, 2006). These events also termed as ‘critical incidents’ as well as the experience of customers at such incidents, act as deciding factors for satisfaction (Bitner et al., 1990).

2.2. Service Failure

In the service sector, every individual service encounter serves as a point of reference for customer expectations in regards to future experiences (Boulding et al., 1993). Therefore, all encounters – whether satisfactory or failed, including those involving service recovery have an effect on future service expectations. It has also been proved that each encounter has an influence on the expectations of customers as to how organizations will deal with consumers in situations of failure and the likelihood of success in service recovery attempts (Bhandari, et al., 2007). Customer expectations of service recovery are affected by factors like: past encounters with the firm (Singh, 1991), extent of service failure (Smith et al., 1999), transaction costs and presence of alternative providers (Colgate, 2001). Similarly, consumers form expectations regarding the recovery process, even without earlier experience.

2.3. Service Recovery

Boshoff (2007) uses the term ‘service recovery’ for situations when firms attempt to respond to situations after service failures. It provides firms with an opportunity to rectify its errors; and “a second opportunity to meet a customer’s expectations” (Boshoff, 2007). Service recovery is a process “for returning aggrieved customers to a state of satisfaction with the organization” after a certain service or product fails to deliver as per expectations (Zemke and Bell, 1990). Such failure tends to have a negative effect on the profitability and survival of firms. Boshoff, (2007) therefore defines service recovery as “the actions by a service firm to restore a customer to a state of satisfaction after a service failure”. The process of service recovery is a part of quality management that intends to maintain business relationships with the customer (Schweikart et al., 1993). The process of service delivery has high chances to fail due to the presence of human element in it especially for service firms. Service recovery is crucial during a service setting as it is expensive to create a new customer as compared to the cost of retaining and satisfying an existing customer (Bailey, 1994). Research reveals that it is five times more expensive to obtain a new customer than to retain one (Haywood, 1989). Thus organizations prefer retaining old customers rather than making new customers. In times of economic downturn it is particularly important that strategies which can entice customers to return are used so that organisations can compete effectively and increase revenue (McIlroy, Barnett, 2000).

Berry and Parasuraman (1991) conclude that though service outcome forms the basis for consumer evaluations of service during the initial service encounter; while it is the process that plays a determining role during the process of service recovery. Service personnel dealing with dis-satisfied customers must understand the importance of the role they play. They should be properly trained to deal with the service failure, in an effective manner so that the consumer is satisfied with the way in which the problem is resolved. Customers reasonably expect a level of personalized service (Kever-Feldman, 2015) and effectiveness of recovery encounters depends on how encounters operate as compared to customer expectations and experiences in regards to the recovery activity. There are agile service transactions, i.e. where the exact needs of the customer is met by the employee (Miller, Voorhees, Calantone and Spreng, 2015) and then there are unsuccessful service
recoveries (Hart et al., 1990). Effective service recovery also has a positive influence on the perceptions related to the quality of products and services, perceptions of the firm’s competence and a favourable image in terms of perceived quality and value (Zemke and Bell, 1990, p. 43). A failure on the part of the service provider to rectify its errors on the second chance leads to greater dissatisfaction and negative word-of-mouth (Hart et al. 1990, p. 150). An organization that considers recovery activity as a form of service encounter should have some predetermined set of actions and management activities for undertaking such service recovery in order to meet the customer expectations. This can help in achieving the recovery process in a better way.

2.4.Customer Satisfaction
Satisfaction during the process of service recovery has considerable influence on the overall satisfaction (Bitner et al., 1990; Hart et al., 1990) and customers with a positive service encounter tend to be more satisfied (Oliver, 1997). Complainers those who were satisfied with the recovery response showed higher repurchase intentions as compared to the customers who never complained (Gilly, 1987). Literature talks consistently about the relationship between satisfaction and positive repurchase intentions (Yi, 1990, p. 104). Satisfaction with complaint response resulted in higher repurchase intentions among displeased consumers, i.e. satisfaction with the service recovery process had a positive impact on repurchase intentions Halstead and Page (1992). Szymanski and Henard (2001) suggest that customers’ reactions were caused by customer satisfaction in service industries which is a focal agent for an experience-based attitude change (Oliver, 1980). The concept of satisfaction is distinguished from attitude toward the product or brand, which represents a more generalized evaluation of a class of purchase objects (Oliver 1981). Satisfaction is generally evaluated on the basis of consumer’s pre-purchase expectations and comparing it to the perceived product performance (Bearden and Teel 1983; Oliver 1980). Extant research found a positive association between perceived justice and customer satisfaction in case of service failure and recovery situations (So’dерlund et al. 2014; Gelbrich and Roschk, 2011; Maxham and Netemeyer, 2002).

2.5.Behavioural Intentions (Customer Loyalty)
Customer loyalty has been defined as a “commitment to repurchase” (Ryan and Rayner, 1999) and a result of “value or worth received for money spent.” A customer remains loyal to an organization till he feels that the organization gives him better service or product as compared to another organization. Jacoby and Kyner (1973) define loyalty as, “the biased, behavioural response (i.e. purchase)..........a function of psychological (i.e. decision making) processes”. For a business, loyalty is a customer's commitment to do business with a particular organisation, purchasing their goods and services repeatedly, and recommending the services and products to friends and associates (McIlroy & Barnett, 2000). Loyal customers buy more, spend more, easier to reach and act as enthusiastic advocates for firms” (Harris and Goode, 2004). The first encounter with the firm is very important as it determines a customer’s future visits and loyalty. Chiu et al. (2007) stated that financial bonds have a little impact on customer loyalty as compared to social bonding. Social bonding has a great impact on customer loyalty rather than that over telephone or the internet. Therefore, positive experience with the process of service recovery may increase the loyalty of the customers.

2.6.Word-of-Mouth
Word-of-mouth (WOM) behaviour refers to “informing others about new products (diffusion of innovations) rather than consumer communications about existing products” (Richins, 1983). WOM communication is important as a product generating positive behaviour among customers is considered to be more successful (Godes et al, 2004). Positive WOM is a significant source of information and signifies the credibility of a product remarkably (Katz and Lazarsfeld, 1955). Extant research reveals that consumers place more weight on negative information while making purchase evaluations (Wright 1974). In case of service
defaults and subsequent recovery, some level of WOM communication by the aggrieved consumer persists. In the context of service recovery, positive WOM is essential for the success of the business as it is the only chance the retailer gets to prove himself. This is because if the retailer defaults for a second time during the recovery, the chances of a customer visiting the store again becomes bleak. However, not all dissatisfied consumers engage in negative WOM.

2.7. Service Encounter in the Retail Sector
The concept of Retail Stores was popularised after the First World War when companies started shifting from centralised management structures to multi-divisional product-based organizations (Shahid and Farooqi, 2015).

Literature reviewed above reveal that if a customer has a positive experience with the service recovery process, they would be satisfied with the store (Chumpitaz et al., 2015). Such satisfaction would consequently have a positive impact on the WOM behaviour as well as the repeat purchase behaviour by the customer (Huang, 2015). Therefore, we hypothesise that:

\[ H_1: \text{Satisfaction with recovery positively affects overall Satisfaction towards the store} \]
\[ H_2: \text{Overall firm satisfaction positively affects WOM intent} \]
\[ H_3: \text{Overall firm satisfaction positively affects purchase intent} \]

The Standard Industrial Classification Manual, USA defines department stores as ‘retail stores carrying a general line of apparel such as suits, coats, dresses, accessories, home furnishings such as table and kitchen appliances, dishes and utensils’. Given the changes in the retailing environment to a great extent and the growing number of retail stores, retailers need to ensure specific behavioural responses namely, ‘stay, browse and purchase’ (Davies, 1998). Retailers need to establish mechanisms to convert potential customers to frequent purchasers and ensure repeat purchase behaviour amongst their target market (Rigby, 2011; Sorescu et al., 2011). Retailers use the stimuli present in the physical environment to stimulate both emotion and behaviour (Mohan et al., 2013).

3. Hypothesized Model
Extant literature reveals that the process of service encounter leads to service recovery (if unsuccessful in the first instance). Successful service recovery leads to overall satisfaction with the firm which further leads to positive word of mouth and behavioural intents on part of the customer. This study intended to analyze how satisfaction with service recovery affects overall satisfaction towards the store and how overall firm satisfaction affects WOM intent and behavioural intents (captured by purchase intent). So this study proposed the following model (as represented in Figure 1 below).
4. Methodology

4.1. Questionnaire Design

The items that describe the characteristics of a retail store and influence store choice were identified from two focus group discussions, where each group consisted of consumers who frequently visited organized retail stores. Questions dealing with satisfaction from the service recovery process were abridged from the RECOVSAT scale proposed by Boshoff (2005). The questions regarding satisfaction and loyalty were the same as those of Zeithmal, Berry and Parasuraman (1996). There were also questions on demographics and frequency of store visit.

4.2. Sampling & Data Collection

Data was collected through survey method using structured questionnaires. A seven-point Likert scale was used for the purpose. Random Sampling was used and total of 425 completely filled questionnaires were obtained. 50 responses were obtained online and the rest were collected individually from respondents. The respondents belonged to all age groups from 18-45 and belonged to various occupational backgrounds. The demographic characteristics of the respondents are depicted in Table 1 provided below.

4.3. Analysis

This section explains the statistical tools used to test the model proposed in the study. Structural Equation Modeling (SEM) was used for data analysis. Before testing the proposed hypotheses, common method variance was assessed. (Common Method Variance is a result of the independent and dependent variable being captured with the same method.) To test the proposed hypotheses Path Analysis using AMOS was used. SEM was used to assess data using several goodness-of-fit and badness-of-fit indices.

Table 1 below represents the demographic characteristic of the sample. Of the 425 respondents, 239 were male and 186 were female. The age group of almost half (46.78%) of the sample belonged roughly in the 26-45 years age group. Also, around 46% of the respondents had completed their graduation and 36% were pot graduates.

| Table 1: Demographic characteristics of the sample |
|-----------------|-----------------|
| Variable        | Percentage Distribution (%) |
| Gender          |                  |
| Male (239)      | 56.23            |
| Female (186)    | 43.76            |
| Age             |                  |
| 18-25           | 38.56            |
| 26-45           | 46.78            |
| Above 45        | 14.66            |
| Education       |                  |
| Intermediate    | .25              |
| Graduate        | 46               |
| Masters         | 36               |
| Others          | 17.75            |

The **Chi-Square** value measures the difference between the sample covariance and the fitted covariance. A model is considered to have a good fit when the Chi-Square Fit index (CMIN) is not significant. A good model fit provides an insignificant result at a 0.05 threshold (Barrett, 2007), so the Chi-Square statistic is commonly used as a ‘badness of fit’ measure (Kline, 2005). However, as the Chi-Square statistic is sensitive to sample size (Jöreskog and Sörbom, 1993) due to the restrictiveness of the Model Chi-Square, Relative/ Normed Chi-Square ($\chi^2$/df) is used (Wheaton et al, 1977). For that reason, chi-square/degrees of freedom ($\chi^2$/df) is used with values less than 3 indicate good fit (Carmines and McIver, 1981). Table 2 depicts the goodness of fit of the model. The NFI, RFI, TLI and CFI are all above 0.9 which shows a very high goodness of fit. RMSEA values are 0.52, 0.42 and 0.21 for Service Recovery, Satisfaction and Word-of-mouth respectively at a significance level of 0.001 which further signifies that the model is highly fit.
The results portrayed in Table 3 reveal that there is convergent validity among the variables with the exclusion of satisfaction where the AVE scores are below 0.5. However, the AVE scores are above 0.5 for Service recovery, Word of mouth and Behavioural intents. All the squared correlations are less than the derived average variances extracted, which signifies a high level of discriminant validity. Table 3 shows that the beta coefficient of satisfaction is .038 at a significant level. Satisfaction with the store explains 0.864 of positive word of mouth at a significant level. Satisfaction is found to explain 0.960 of behavioural intentions by the customer, which can be interpreted as loyalty for the store (repeat purchase behaviour).

Table 2. Goodness of fit indices

<table>
<thead>
<tr>
<th></th>
<th>SR</th>
<th>Satisfaction</th>
<th>WOM</th>
<th>Behavioural Intents</th>
</tr>
</thead>
<tbody>
<tr>
<td>CMIN</td>
<td>117.012</td>
<td>34.918</td>
<td>2.389</td>
<td>.092</td>
</tr>
<tr>
<td>DF</td>
<td>54</td>
<td>20</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>CMIN/DF</td>
<td>2.167</td>
<td>1.746</td>
<td>1.195</td>
<td>.046</td>
</tr>
<tr>
<td>FI</td>
<td>.981</td>
<td>.883</td>
<td>.998</td>
<td>.999</td>
</tr>
<tr>
<td>RFI</td>
<td>.976</td>
<td>.837</td>
<td>.995</td>
<td>.997</td>
</tr>
<tr>
<td>IFI</td>
<td>.990</td>
<td>.947</td>
<td>.996</td>
<td>.988</td>
</tr>
<tr>
<td>TLI</td>
<td>.987</td>
<td>.923</td>
<td>.999</td>
<td>.979</td>
</tr>
<tr>
<td>CFI</td>
<td>.990</td>
<td>.945</td>
<td>.998</td>
<td>.999</td>
</tr>
<tr>
<td>RMSEA</td>
<td>.052</td>
<td>.042</td>
<td>.021</td>
<td>.000</td>
</tr>
</tbody>
</table>

The paths were found to be significant, i.e. SR→Satisfaction, Satisfaction →Word of mouth and Satisfaction →Behavioural intents. The model explained 3.6% of variance in overall satisfaction from recovery, 86.4% of variance in word of mouth intent and 96% of purchase intent. In sum, the hypothesized model depicted above was mostly supported. The SEM model tested has been provided in Figure 2 (at the end).

Table 3 Discriminant & Convergent Validity

<table>
<thead>
<tr>
<th></th>
<th>SR</th>
<th>SAT</th>
<th>WOM</th>
<th>BI</th>
</tr>
</thead>
<tbody>
<tr>
<td>SR</td>
<td>0.766</td>
<td>0.6331</td>
<td>0.17602</td>
<td>0.5880</td>
</tr>
<tr>
<td>SAT</td>
<td>0.6331</td>
<td>0.17602</td>
<td>0.76063</td>
<td>0.598</td>
</tr>
<tr>
<td>WOM</td>
<td>0.5880</td>
<td>0.07614</td>
<td>0.76063</td>
<td>0.7806</td>
</tr>
<tr>
<td>BI</td>
<td>0.598</td>
<td>0.1506</td>
<td>0.7569</td>
<td>0.7806</td>
</tr>
</tbody>
</table>

5. Results and Discussion

The results reveal a positive and significant relationship of service recovery with satisfaction which further leads to positive word of mouth and behavioural intents. So all the three hypotheses proposed were found to be true. There are several other studies which conclude in a similar manner. A study by Maxham and Netemeyer (2002) found a significant relationship between successful service recovery, overall satisfaction, word of mouth intent and purchase behaviour. Results show that satisfactory service recovery may lead to positive word of mouth behaviour by the customer but the customer still does not get much satisfaction because of the service failure. Overall satisfaction with a firm affects purchase intent as well as the purchase intent. Word of mouth is considered to have an effect on creating new customers; while repurchase intention denotes retaining the existing ones (Hart et al., 1990; Kelley et al., 1993). So, it is profitable for the retailers to be cautious in the service recovery process so as to affect these two intents positively and beneficially. Recent studies have also proved that in certain services, such as services requiring low expertise, increased customer participation...
leads to higher service quality (Dhabolkar, 2015). So, higher customer participation can also be banked upon. This study focussed on firms that provide customers with certain levels of preferential treatment. Brady (2000) opined that markets today are evolving toward a state of “consumer apartheid” and preferential-treatment programs may lead to societal consequences. Since perceived justice has a positive association with trust (Ambrose and Schminke, 2003), just’ service encounters tend to increase trust in firms. So, recurrent service-encounter that lead to just treatment of customers may consequently enhance satisfaction, purchase behaviour and positive word-of-mouth (Lacey, 2007).

**Figure 2: Full Measurement Model**

![Full Measurement Model Diagram]

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